


Lornex

MINING CORPORATION LTD.

ANNUAL REPORT 1975



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Lornex MINING CORPORATION LTD.

OFFICERS	Honorary Chairman E. H. LORNTZSEN Chairman of the Board R. W. WRIGHT, CBE President and Chief Executive Officer R. D. ARMSTRONG Vice-President G. R. ALBINO Vice-President, General Manager C. W. RENO Treasurer J. VAN NETTEN Secretary C. W. M. BURGE
DIRECTORS	G. R. ALBINO, Port Credit, Ontario W. A. ARBUCKLE, Montreal R. D. ARMSTRONG, Toronto E. B. GILLANDERS, Vancouver R. A. HAMMOND-CHAMBERS, Edinburgh, Scotland N. B. IVORY, Montreal K. KAWAKAMI, Tokyo, Japan E. H. LORNTZSEN, Vancouver A. F. LOWELL, Toronto C. W. RENO, Logan Lake, B.C. J. A. SADLER, Toronto J. H. SMITH, Toronto R. W. WRIGHT, CBE, London, England
HEAD OFFICE	580 Granville St Vancouver
MINE OFFICE	P.O. Box 1500 Logan Lake
PRINCIPAL BANKERS	Canadian Imperial Bank of Commerce Vancouver and Toronto The Toronto-Dominion Bank Toronto Bank of Montreal Toronto
SOLICITORS	Clark, Wilson & Company Vancouver Fasken & Calvin Toronto
AUDITORS	Coopers & Lybrand Vancouver
REGISTRAR AND TRANSFER AGENT	National Trust Company, Limited Vancouver
SHARES LISTED	Vancouver Stock Exchange
THE ANNUAL GENERAL MEETING	11:00 a.m., Tuesday, April 27, 1976 Plaza West Room, Hyatt Regency Hotel, Vancouver, British Columbia.

DIRECTORS' REPORT TO THE SHAREHOLDERS

Net earnings for 1975 were \$626,000 or \$0.08 per share compared to \$22,681,000 or \$2.76 per share for the year 1974.

Net revenue from mine production comprising revenue from copper, molybdenum and minor values of precious metals less smelting, refining and marketing charges applicable thereto declined to \$51,043,000 in 1975 as compared to \$85,421,000 for the previous year. This decrease was mainly attributable to substantially lower copper prices and to a decrease in production of copper in concentrate from 128.1 million net payable pounds in 1974 to 107.2 million in 1975. Copper prices applicable to the Company's production remained depressed throughout the year; the gross revenue price per payable pound averaged 55 cents in 1975 as compared to 72 cents in 1974. The method by which revenue from mine production is determined is described in the Accounting Policies section of this Report.

Investment and other income was significantly lower in 1975 mainly because recoveries under insurance claims included in this category were substantially less and also interest income was lower than in 1974.

Earnings before taxes and royalty declined by almost 80% from \$39,191,000 in 1974 to \$8,162,000 in 1975; these amounts are after deducting interest on income debentures amounting to \$4,945,000 in 1974 and \$5,379,000 in 1975 which interest is not deductible for income and mining tax purposes. The total provision for income and mining taxes and government royalty was \$16,510,000 in 1974 and \$7,536,000 in 1975.

Comparative milling, metallurgical and production data for the years 1975 and 1974 are as follows:

	1975	1974
Tons of ore milled (thousands)	12,893	16,445
Average tons milled per operating day (note)	38,259	45,056
Average millhead grade		
— copper	0.495%	0.457%
— molybdenum	0.016%	0.016%
Average mill recovery		
— copper	87.1%	88.1%
— molybdenum	74.3%	75.8%
Pounds of payable metal in concentrate produced (thousands)		
— copper	107,160	128,064
— molybdenum	3,084	4,038

NOTE: The mine and mill operations were closed for holidays for three weeks during August, 1975.

Total operating costs were lower in 1975 because of reduced volume but unit operating costs increased significantly during the year due to wage rate increases and the continuing rapid escalation in the cost of operating materials and supplies. Cost reductions achieved by improved utilization of materials and supplies together with improvements in operating efficiencies modified but did not offset these cost increases. Strict cost control programs continue to be pursued aggressively.

As previously reported, the agreement of December 1, 1969, whereby the entire copper concentrate production from the two existing Lornex mill lines was contracted for by a consortium of Japanese companies until December 31, 1984, was amended on October 8, 1975 to provide for the delivery by Lornex of fixed amounts of copper concentrates in each of the years 1976 through 1979; under the amending agreement Lornex also obtained the right to sell elsewhere in each of these years copper concentrates available to it from production in excess of the revised commitment to the Japanese consortium and from accumulated inventories.

Pursuant to an agreement dated as of May 1, 1975 a total of 27.4 million payable pounds of copper in concentrate was delivered to a United States company in 1975 in addition to deliveries of 90.5 million payable pounds to the Japanese consortium. The total deliveries in 1975 were 117.9 million payable pounds of copper in concentrate and 3.2 million payable pounds of molybdenum in concentrate compared to 104.0 million pounds and 3.9 million pounds respectively in 1974. The inventory of copper in concentrate had been reduced to 33.6 million pounds at the end of 1975 from the total of 44.3 million pounds that had been accumulated at the end of the previous year. Lornex will also deliver copper in concentrate to the same United States company in each of the years 1976 through 1979. The effect of these arrangements was to permit production to be maintained in 1975 at a higher rate than would otherwise have been the case and it is currently expected that it will also be possible to reduce the Company's accumulated inventory of copper concentrates to more normal levels and to increase production in 1976 with a further increase in 1977.

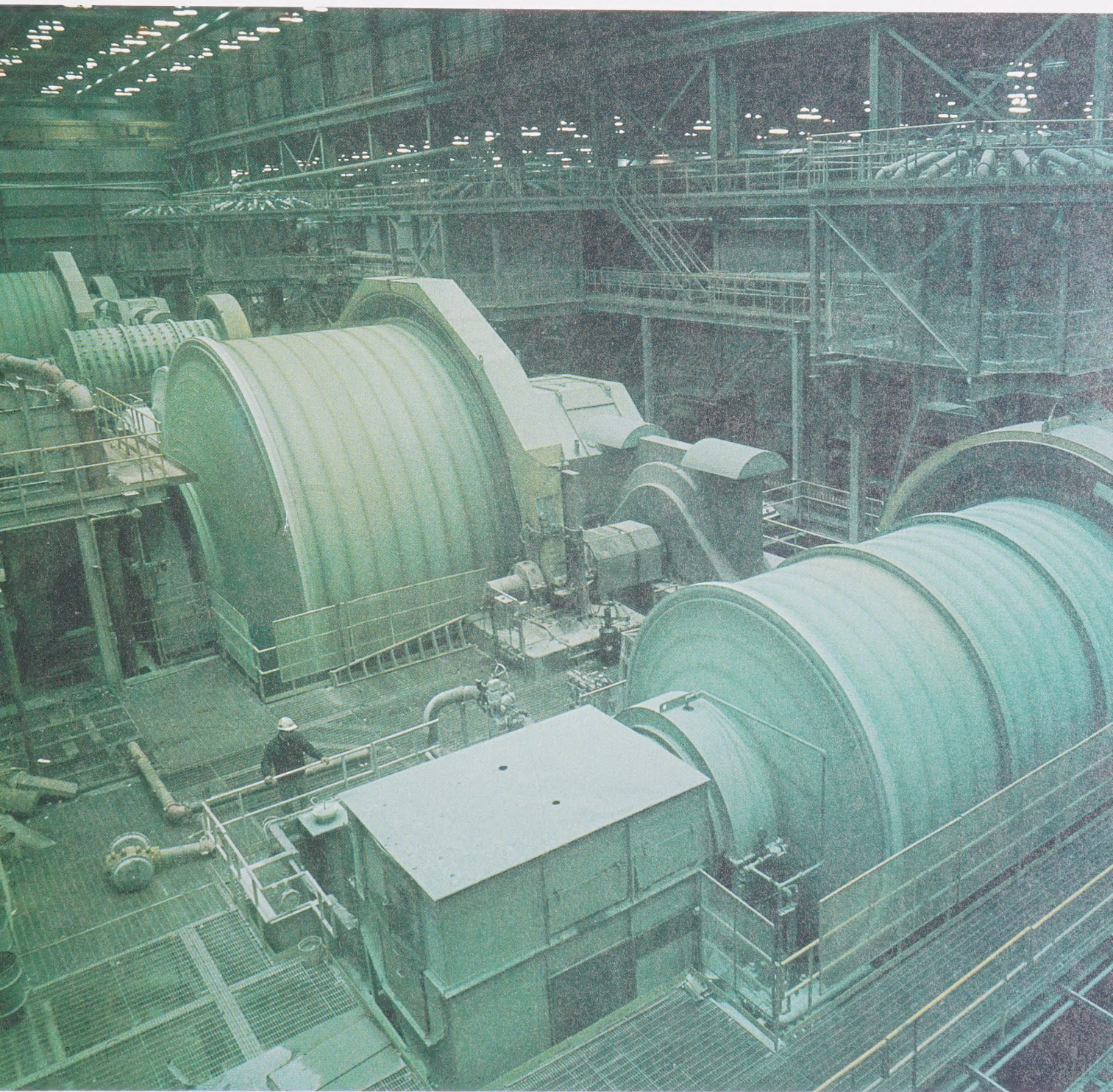
As previously reported it was agreed with the Japanese buyers on October 8, 1975 that Lornex would grant financial relief on a short term basis by way of temporary upward adjustments in the refining charge to be deducted from the selling price for shipments made from May 1, 1975 through March 31, 1977 and to negotiate in good faith during January, 1977 such terms and conditions as may be appropriate after March 31, 1977, when the temporary adjustments expire.

Net capital expenditures in 1975 were \$2,794,000. These amounts were principally for one additional 200 ton haulage truck for mining operations, tailings system revisions, employee housing and normal equipment replacements. Lornex has contributed one-third of the cost of a community recreation centre recently completed in the town of Logan Lake. Total capital expenditures required in the five years 1976 through 1980 are currently estimated to be approximately \$46 million in 1975 dollars, of which \$19.5 million has been approved for expenditure; of this amount, it is expected that approximately \$7 million will be expended in 1976. These capital expenditures are required for normal replacement of open pit equipment, additional open pit equip-

ment and other facilities required to achieve planned production levels, construction of tailings dams, additional housing and for other expenditures which are expected to be made relating to the improvement of operating efficiency and reliability.

The ore reserve program that was completed in 1974 in conjunction with a firm of independent consulting geologists resulted in the delineation of reserves substantially in excess of those established as of the date of commencement of development. The reserves, previously reported and reduced by ore subsequently extracted, amount to 419 million tons with an average grade of 0.409% copper and 0.014% molybdenum as of December 31, 1975. No additional work was carried out during 1975 for the specific purpose of ore reserve determination. As previously stated, the possibility that further ore reserves may be delineated by exploratory work that will be carried out in the normal course of mine operations is not precluded.

Long term debt arranged to develop the Company's properties for production totalled \$130.9 million, comprising bank loans of \$60 million, 8¾% Notes totalling \$26.8 million and 8½% Series A Income Debentures in the amount of \$44.1 million. By the end of 1974 the bank loans had been repaid in full and the Company's liability for the 8¾% Notes had been reduced to \$22.7 million. Principal repayments of long term debt in 1975 were \$11.5 million as compared to \$37.5 million in 1974. The total liability in respect of the 8¾% Notes at December 31, 1975 was \$11.2 million; subsequent to the year end this liability was further reduced to \$1.7 million. The Company's liability in respect of the 8½% Series A Income Debentures was \$66.7 million at December 31, 1975 comprising \$22.6 million of accrued interest and \$44.1 million of principal. Payment of accrued interest and repayment of principal cannot commence until the 8¾% Notes are fully retired. Interest payments on the Notes totalled \$1.6 million in 1975 and in addition interest not currently payable on Income Debentures was accrued and charged to 1975 earnings in the amount of \$5.4 million. The composition of the Company's long term debt is set out in Note 4 to the financial statements.



Lornex mill's huge grinding circuit dwarfs operator. Ore is ground to fine pulp prior to extraction of metal concentrate.



Above: Logan Lake, 11 miles from Lornex mine, has most of the amenities of larger towns.

Above: Shovel operator's view as ore is dumped into 200-ton capacity truck at Lornex.

Below: Young Logan Lakers are coached in the fundamentals of hockey in the new recreation centre.

Below: Recreation centre, costing \$1.1 million, includes facilities for sports year round.

At December 31, 1975 there were 636 Lornex employees as compared to 751 employees at the end of the previous year. The reduction in the number of people employed was mainly related to direct production activities and reflects the reduced level of operations during the year. In addition to an overall reduction in the Lornex work force overtime work was reduced and there was a three-week shutdown of operations in August for holidays.

The Company's collective bargaining agreements with the United Steelworkers of America expire on June 30, 1976.

The Lornex mine is a large-scale capital-intensive operation with a substantial amount of long term debt remaining outstanding. Its earnings are highly sensitive to the world price of copper and to the level of production that can be maintained. Lornex is an established and efficient world scale producer but its pre-tax earnings were severely depressed in 1975 by low copper prices and curtailed production. There is no reason at present to anticipate a significant increase in copper prices during 1976 but, as stated earlier, it is expected that production rates can be increased to some extent in 1976 following the agreements with the Japanese buyers and the United States company mentioned previously in this Report.

Royalties and mining taxes levied by the British Columbia government continue to be disallowed by the Federal Government for its taxation purposes. Although the Federal Government has made an attempt to reduce the impact by the new tax rules in its budget in June, 1975, the total impost on the mining industry continues to be punitive and inequitable by any reasonable standards. The recent announcement by the Government of the Province of British Columbia that it intends to replace its mineral royalties levied on the sales value of metal with a tax on profits is also regarded as a constructive step. It is hoped that the Province and the Federal Government will also reach an agreement whereby the current punitive and inequitable double taxation will be eliminated. As of this date no changes in this regard have been made and the position in respect of taxation of Lornex and the mining industry in British Columbia in the future thus cannot be determined. The legal action instituted by Lornex in conjunction with

other mining companies to have the British Columbia Mineral Royalties Act declared unconstitutional and to recover payments made thereunder has been adjourned until May 4, 1976 at the request of the plaintiffs.

Lornex' wage and salary programs are subject to regulations established under the Federal Government's Anti-Inflation Act, which became effective as of October 14, 1975. It is estimated that these regulations would have no effect on the Company's earnings for the period October 14, 1975 to December 31, 1975.

Dr. E. B. Gillanders has reached retirement age under the Company's policy with regard to retirement of directors and accordingly will not present himself for re-election as a Director. Dr. Gillanders has been a Director of Lornex virtually since its inception in 1964. He has made a major and valued contribution to the Company's affairs throughout this period in which it has developed from a mineral resource holder to a world scale copper producer. His fellow directors wish to record their appreciation for the distinguished manner in which Dr. Gillanders has served the interests of the Company during this period.

Mr. Roy W. Wright has expressed his desire to be relieved of the responsibilities attendant upon the position of Chairman of the Board of the Company. He will continue as a Director. It is intended that Mr. Robert D. Armstrong, currently President and Chief Executive Officer, will become Chairman and Chief Executive Officer and that Mr. George R. Albino, currently Vice-President will become President and Chief Operating Officer.

Improvements were achieved in all sectors of the Company's operating and commercial activities during 1975. The Directors of the Company wish to record their appreciation of the loyal and diligent efforts of all of the individuals who have made this possible.

On behalf of the Board

R. D. ARMSTRONG
President and
Chief Executive Officer.

February 24, 1976.
Vancouver, B.C.

Auditors' Report

To the Shareholders of
Lornex Mining Corporation Ltd.:

We have examined the statement of financial position of Lornex Mining Corporation Ltd. as at December 31, 1975, and the statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at December 31, 1975, and the results of its operations and the changes in its financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Vancouver, British Columbia
February 4, 1976

COOPERS & LYBRAND
Chartered Accountants

ACCOUNTING POLICIES

The principal accounting policies followed by Lornex Mining Corporation Ltd. are summarized hereunder:

REVENUE FROM MINE PRODUCTION AND VALUATION OF CONCENTRATES AWAITING SHIPMENT

A group of Japanese smelting companies contracted to purchase the Company's entire production of copper concentrates for a period of twelve years expiring in 1984. Due to depressed world-wide demand for copper since mid 1974 and increased production from the two existing mill lines over that of 1973 the Japanese buyers have not taken delivery of copper concentrates at the rate being produced. On October 8, 1975 the Japanese buyers and the Company agreed to amend the Japanese Sales Contract to provide for the delivery of fixed amounts of copper concentrates in each of the years 1976 through 1979 and for the Company to have the right to sell elsewhere in each of the said years copper concentrates expected to be produced in excess of such fixed amounts and from inventories that have been accumulated. Under an agreement dated as of May 1, 1975 a United States company contracted to purchase from the Company fixed amounts of copper concentrates in 1975 and 1976. Under an exercised option the Company will also deliver quantities of copper concentrates to the United States purchaser during 1977, 1978 and 1979 in addition to the quantities which are to be delivered to the Japanese buyers in those years. A United States company has contracted to purchase the projected annual molybdenum concentrate production for a period of five years expiring in 1977.

Production is valued and taken into income as revenue from mine production at estimated realizable metal prices less provision for possible fluctuation in price; concentrates awaiting shipment are also valued on this basis. Adjustments are made to revenue from mine production with respect to concentrate shipments when the actual metal price is known and the final weight and assay adjustments are determined. Estimated smelting, refining and marketing charges are accrued at time of production and these charges are also adjusted with respect to shipments when the final weight and assay adjustments and marketing charges are determined.

At December 31, 1975 inventories of 33.6 million payable lbs. of copper and 0.8 million payable lbs. of molybdenum contained in concentrates awaiting shipment were valued as described above; in addition, shipments totalling 10.7 million payable lbs. of copper for which the final price has not been established were also priced in this manner and the values are included in settlements receivable.

CONVERSION OF UNITED STATES CURRENCY

The accounts in United States currency are stated in Canadian dollars on the following basis:

Current assets and current liabilities at year-end exchange rates; all other assets and long term liabilities at rates in effect at time of transactions, and revenues and expenses at actual rates prevailing during the year.

MINE SUPPLIES

Mine supplies are valued at average cost.

DEPRECIATION AND AMORTIZATION

Depreciation is provided on mining equipment on a straight-line basis over the shorter of its physical life or the estimated life of the mine. The cost of plant and equipment, mining properties and preproduction expenditures is amortized on a unit-of-production basis over the estimated life of the mine.

INCOME AND MINING TAXES

Income taxes are based on reported income which differs from taxable income. Differences arise when some revenues and costs, principally depreciation and mine development expenses, are reflected in different time periods for the financial statements than for income tax purposes. The tax effect of these timing differences is recognized in the accounts as deferred income taxes. This method is also being followed with respect to provincial mining taxes.

Statement of Financial Position

DECEMBER 31, 1975

(\$000's omitted)

CURRENT ASSETS:	1975	1974
Cash and short term deposits	\$ 10,141	\$ 6,515
Accounts and settlements receivable and prepaid expenses	14,336	7,639
Concentrates awaiting shipment	17,502	21,832
Mine supplies	8,667	7,848
Total	<u>50,646</u>	<u>43,834</u>
Less:		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	11,694	7,244
Payable to Rio Algom Limited	957	2,032
Provincial mining taxes and royalties payable	2,730	2,680
Long term debt due within one year (note 4)	11,223	5,822
Total	<u>26,604</u>	<u>17,778</u>
WORKING CAPITAL	<u>24,042</u>	<u>26,056</u>
Plant and equipment, less depreciation (note 2)	87,022	88,831
Mining properties and preproduction expenditures less amortization (note 3)	41,516	42,829
	<u>128,538</u>	<u>131,660</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>152,580</u>	<u>157,716</u>
Deduct:		
Long term debt (note 4)	66,952	78,363
Deferred income and mining taxes	20,390	14,815
	<u>87,342</u>	<u>93,178</u>
EXCESS OF ASSETS OVER LIABILITIES	<u>\$ 65,238</u>	<u>\$ 64,538</u>
OWNERSHIP EVIDENCED BY:		
Capital stock (note 5)		
Authorized —		
9,500,000 common shares, par value of \$1.00 each		
4,500,000 Class A shares, par value of \$1.00 each		
Issued —		
8,226,062 common shares (8,215,862 shares in 1974)	\$ 8,226	\$ 8,216
Premium less discount on shares issued for cash (includes \$64 premium on shares issued under stock option plan in 1975 and \$8 in 1974)	3,022	2,958
Retained earnings	53,990	53,364
Total	<u>\$ 65,238</u>	<u>\$ 64,538</u>

Approved on behalf of the Board:

NEIL B. IVORY, Director

R. D. ARMSTRONG, Director

Statement of Earnings

YEAR ENDED DECEMBER 31, 1975

(\$000's omitted)

REVENUE:

	1975	1974
Net revenue from mine production	\$ 51,043	\$ 85,421
Investment and other income	842	4,059
	<u>51,885</u>	<u>89,480</u>

EXPENSES:

Operating costs	25,141	28,247
Administrative and general expenses	5,677	6,342
Amortization and depreciation	5,917	7,029
	<u>36,735</u>	<u>41,618</u>
Operating profit	15,150	47,862
Interest on long term debt	6,988	8,671
Earnings before taxes and royalty	8,162	39,191
Income and mining taxes and government royalty		
— Current	1,961	4,410
— Deferred	5,575	12,100
	<u>7,536</u>	<u>16,510</u>
NET EARNINGS FOR THE YEAR	\$ 626	\$ 22,681
NET EARNINGS PER SHARE	<u>\$ 0.08</u>	<u>\$ 2.76</u>

Statement of Retained Earnings

YEAR ENDED DECEMBER 31, 1975

(\$000's omitted)

	1975	1974
BALANCE, beginning of year	\$ 53,364	\$ 30,683
Net earnings for the year	626	22,681
BALANCE, end of year	<u>\$ 53,990</u>	<u>\$ 53,364</u>

Statement of Changes in Financial Position

YEAR ENDED DECEMBER 31, 1975

(\$000's omitted)

SOURCE OF FUNDS:	1975	1974
Operations		
Net earnings for the year	\$ 626	\$ 22,681
Add charges against earnings not involving current outlay of funds:		
Amortization and depreciation	5,917	7,029
Interest on Income Debentures, etc.	5,379	4,945
Deferred income and mining taxes	5,575	12,100
Total funds from operations	17,497	46,755
Housing loans (net)	86	—
Issue of common shares under stock option plan	74	9
	17,657	46,764
DISPOSITION OF FUNDS:		
Expenditures on plant and equipment (net)	2,794	2,878
Reduction of long term debt:		
8¾% Notes	16,877	9,453
Bank loans	—	29,325
Repayment of housing loans (net)	—	177
	19,671	41,833
INCREASE (DECREASE) IN WORKING CAPITAL	(2,014)	4,931
WORKING CAPITAL, beginning of year	26,056	21,125
WORKING CAPITAL, end of year	\$ 24,042	\$ 26,056
Note: 8¾% Note repayments in cash	\$ 11,476	
Add increase in current portion of Notes payable	5,401	
Reduction in Notes as above	\$ 16,877	

Notes to the Financial Statements

DECEMBER 31, 1975

1. ACCOUNTING POLICIES

The information on pages 9 and 10 presents a summary of certain accounting policies and is an integral part of these financial statements.

2. PLANT AND EQUIPMENT

	1975	1974
Plant and equipment at cost	\$106,841,010	\$104,177,940
Less accumulated depreciation	19,819,609	15,346,859
	<u>\$ 87,021,401</u>	<u>\$ 88,831,081</u>

3. MINING PROPERTIES AND PREPRODUCTION EXPENDITURES

	1975	1974
Mining properties at cost	\$ 1,215,281	\$ 1,065,179
Less accumulated amortization	133,035	102,091
	<u>1,082,246</u>	<u>963,088</u>
Preproduction expenditures at cost	46,214,117	46,297,946
Less accumulated amortization	5,780,222	4,432,237
	<u>40,433,895</u>	<u>41,865,709</u>
	<u>\$ 41,516,141</u>	<u>\$ 42,828,797</u>

4. LONG TERM DEBT

	1975	1974
8¾% Notes	\$ 11,223,243	\$ 22,699,346
Less portion included in current liabilities	11,223,243	5,822,000
Long term portion	—	16,877,346
8½% Series A Income Debentures due December 31, 1985	44,093,000	44,093,000
Housing loans	267,648	181,248
Accrued interest on Income Debentures	22,590,663	17,211,337
	<u>\$ 66,951,311</u>	<u>\$ 78,362,931</u>

Repayment of the 8¾% Notes is collaterally secured under a Trust Deed by the pledge of mortgage bonds, secured by a fixed and specific charge and a floating charge on the assets of the Company. Under the terms of the Japanese Financing Agreement 90% of the Company's net operating profit as defined is to be applied to repayment of the 8¾% Notes.

The principal amount of the Income Debentures is to be repaid by way of annual sinking fund payments from all of the operating profits of the Company after the 8¾% Notes have been paid in full. The amounts and timing of the required sinking fund payments are defined in the Income Debenture Indenture and are dependent on the operating profits of the Company together with certain other factors. The sinking fund payments are to be used to redeem the Income Debentures at par. Of the Income Debentures of \$44,093,000 outstanding at December 31, 1975, \$36,097,000 principal amount is owned by the parent company, Rio Algom Limited.

The accrued interest of \$22,590,663 on Income Debentures at December 31, 1975 may not be paid until the required interest and principal repayments have been made and certain other conditions have been met under the terms of the Japanese Financing Agreement.

5. CAPITAL STOCK

During the year 10,200 common shares were issued for \$74,358 cash under a Stock Option Plan.

At December 31, 1975, 833,260 common shares were reserved:

- (a) 760,560 common shares for issue in exchange for the 760,560 Class A shares which may be issued under the terms of the Construction and Management Agreement;
- (b) 72,700 common shares for issue under a Stock Option Plan. Options may be granted to employees of the Company or of Rio Algom Limited. Outstanding options have been granted to purchase 52,600 common shares at prices varying from \$7.20 to \$8.65 per share; these options expire on varying dates from September 27, 1976 to April 22, 1980.

In addition 760,560 Class A shares are reserved to satisfy obligations of the Company which may arise under the provisions of the Construction and Management Agreement with Rio Algom (note 6(a)).

The Trust Deeds and Indentures prohibit the payment of dividends until all loans and accrued interest have been paid in full.

6. COMMITMENTS AND CONTINGENT LIABILITIES

- (a) Rio Algom Limited has agreed to supervise and manage the business of the Company until December 1, 1984 and to incur and pay, on behalf of the Company, operating costs of the Company incurred prior to August 1, 1976. The Company has agreed to pay Rio Algom a management fee of \$250,000 per annum.

If the Company is unable to reimburse Rio Algom for any of the aforementioned costs Rio Algom may elect to receive Units of the Company's Income Debentures and Class A shares instead of cash at a later date. The maximum number of such Units which could be issued is 9,507, comprised of \$9,507,000 principal amount of Income Debentures and 760,560 Class A shares.

- (b) The Company has a contingent liability to buy back houses and mobile home lots at the Logan Lake townsite for \$5,817,017 until December 31, 1982.
- (c) Estimated total cost to complete approved capital expenditures at December 31, 1975 was approximately \$23,230,000 of which \$637,000 was committed.
- (d) The Company is subject to the regulatory controls established under the Canadian government's Anti-Inflation Act, which became effective October 14, 1975. It is estimated that these regulations would have no effect on the Company's earnings for the period October 14, 1975 to December 31, 1975.

7. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

During the year ended December 31, 1975 the aggregate direct remuneration paid or payable by the Company to the Directors and Senior Officers of the Company was \$295,184.

Rio Algom

Rio Tinto

